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Internationalisation in the company related service sector - Forms, obstacles and the need for support in German SMEs

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Executive Summary

Enterprises of the service sector amount for a high share of all enterprises and of total employment in Germany. Nevertheless, their degree of internationalization - as measured by their share on total German exports - is comparatively low. Further potential for internationalization is presumed. In order to assess the potential, to identify possible obstacles, and to address a need for support, the IfM Bonn analyzed three service types (R&D, ICT, and architectural services). Twelve industry experts were interviewed on topics retrieved from a theoretical discussion on the tradability of services.

Experts confirm further potential for internationalization

The three service sectors show a lower degree of internalization as compared to the manufacturing sector. Within the service sector, R&D and ICT providers show a higher export level than architectural services. Furthermore these foreign markets show a slight acceleration of international activities. This is due to the ongoing globalisation of industrial value chains and the cross-sectoral digitalisation processes. A similar upward trend cannot be documented for architectural services, because of higher barriers for market entry and international trade.

Restricted resources lead to a lack of strategic planning

In order to decide upon the entry into an international market, information on the market environment and the administrative framework background is necessary. Retrieving this information is a costly and time-consuming process and so is establishing a solid basis of trust among the partners. The latter is exceptionally important in the trade of services. Our interviews show, that restricted management resources concerning time and knowledge are a bottleneck in the decision processes. As a consequence, a systematic cost-benefit-analysis is not conducted or it is assumed, that international activities are economically not viable.

Cooperations are an efficient alternative

Cooperations with local partners are amongst the most frequently used ways to enter a foreign market. They seem to be suitable to overcome the trade-restricting characteristics of services. The foreign partner functions as a link between the domestic service provider and the foreign customer. He contributes country-/sector-specific information and network contacts in the target

country. By this means, the effort for a market entry can be reduced, at least for one country.

Trade-friendly design of the international framework

In the trade of services a solid basis of trust between the business partners is mandatory. To establish trust, an intensive communication is needed - a relationship can hardly be supported by foreign trade promotion. To reduce the pre-contractual efforts on a widespread basis, measures such as the international harmonization of standards, norms, and contract modalities would be useful. Furthermore, general information (e. g. legal framework, legal protection, network contacts) can be offered by actors of foreign trade promotion. However, specific information concerning markets, technologies, clients is rather not publicly available and can thus hardly be covered.